MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

5 MARCH 2019
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 2 pages with 4 questions only.

2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

(a) Briefly explain **THREE (3)** principal components of return on equity (ROE), and what does each of these components measure.

(6 marks)

(b) Explain **SEVEN (7)** types of risks with regards to managing a bank.

(14 marks)

(c) Johnny holds the stock of PB Bank and expects to receive a dividend of RM2.50 per share at the end of the year. Stock analysts recently predicted that the bank's dividends will grow at approximately 6 percent a year indefinitely into the future.

What should be the current price per share of PB Bank's stock if the bank's discount rate is 14 percent?

(5 marks)

Question 2 (25 marks)

(a) Barnes Bank has posted interest revenues of RM63 million and interest costs from all of its borrowings of RM42 million.

(i) If this bank possesses RM700 million in total earning assets, what is Barnes Bank's net interest margin?

(3 marks)

(ii) Suppose the bank's interest revenues and interest costs double, while its earning assets increase by 50 percent. What will happen to its net interest margin?

(7 marks)

(b) Commerce Bank reports interest-sensitive assets of RM870 million and interest-sensitive liabilities of RM625 million during the coming month.

(i) Is the bank asset sensitive or liability sensitive? Please show the calculation.

(4 marks)

(ii) What is likely to happen to the bank's net interest margin if interest rates rise or fall?

(4 marks)

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(c) What is the investment maturity strategy that a bank must employed if they want to emphasis on liquidity as well as long term profitability in their investment? Explain the technique using a diagram.

(7 marks)

Question 3 (25 marks)

(a) Explain the guidelines the management should adhere in managing a bank's liquidity position.

(12 marks)

(b) Suppose that a bank faces the following cash inflows and outflows during the coming week:

(i) Deposit withdrawals are expected to total RM33 million,
(ii) Customer loan repayments are expected to amount to RM88 million,
(iii) Operating expenses demanding cash payment will probably approach RM51 million,
(iv) Acceptable new loan requests should reach RM224 million,
(v) Sales of bank assets are projected to be RM18 million,
(vi) New deposits should total RM620 million,
(vii) Borrowings from the money market are expected to be about RM43 million,
(viii) Non-deposit service fees should amount to RM27 million,
(ix) Previous bank borrowings totaling RM23 million are scheduled to be repaid,
(x) A dividend payment to bank stockholders of RM120 million

Based on the information above, calculate the bank's projected net liquidity position for the coming week.

(13 marks)

Question 4 (25 marks)

(a) Explain **EIGHT (8)** steps that a bank should go through to resolve a problem loan situation.

(16 marks)

(b) Suppose a bank estimates that the marginal cost of raising loanable funds to make a RM100 million loan to one of its corporate customers is 4 percent, its nonfunds operating costs to evaluate and offer this loan are 0.5 percent, the default-risk premium on the loan is 0.375 percent, a term-risk premium of 0.625 percent is to be added, and the desired profit margin is 0.25 percent.

(i) What loan rate should the bank quoted to its borrower? (6 marks)
(ii) How much interest will the borrower pay in a year? (3 marks)

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